

**REPORT OF THE AUDIT OF THE
FRANKLIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FRANKLIN COUNTY FISCAL COURT**

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Franklin County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions based on our audit on the governmental activities, business-type activities, and each major fund information financial statements of Franklin County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$37,385,038 as of June 30, 2010. The fiscal court had unrestricted net assets of \$5,790,222 in its governmental activities as of June 30, 2010, with total net assets of \$37,194,223. In its business-type activities, total net cash and cash equivalents were \$190,815 with total net assets of \$190,815. The fiscal court had total debt principal as of June 30, 2010 of \$5,842,340 with \$5,258,161 due within the next year.

Report Comments:

- 2010-01 The County Judge/Executive Should Ensure Appropriate Oversight And Adequate Controls Are In Place Over Occupational Tax Receipts
- 2010-02 The Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure
- 2010-03 The Franklin County Judge/Executive's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations
- 2010-04 The County Should Improve Controls Over Payroll And Comply With Applicable Laws And Regulations
- 2010-05 The County Judge/Executive's Office Should Maintain Records As Outlined By Department For Local Government
- 2010-06 The County Should Ensure All Fleet Transactions Are Properly Supported And Approved
- 2010-07 The County Should Follow Proper Bidding Procedures

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Ted Collins, Franklin County Judge/Executive
Members of the Franklin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Franklin County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Franklin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Franklin County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Franklin County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Ted Collins, Franklin County Judge/Executive
Members of the Franklin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2011 on our consideration of Franklin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2010-01 The County Judge/Executive Should Ensure Appropriate Oversight And Adequate Controls Are In Place Over Occupational Tax Receipts
- 2010-02 The Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure
- 2010-03 The Franklin County Judge/Executive's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations
- 2010-04 The County Should Improve Controls Over Payroll And Comply With Applicable Laws And Regulations
- 2010-05 The County Judge/Executive's Office Should Maintain Records As Outlined By Department For Local Government
- 2010-06 The County Should Ensure All Fleet Transactions Are Properly Supported And Approved
- 2010-07 The County Should Follow Proper Bidding Procedures

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 6, 2011

FRANKLIN COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Ted Collins	County Judge/Executive
Jill E. Robinson	Magistrate
Philip W. Kring	Magistrate
Don Sturgeon	Magistrate
Pat Fanin	Magistrate
Huston D. Wells	Magistrate
Lambert Moore	Magistrate

Other Elected Officials:

Rick Sparks	County Attorney
Billy Roberts	Jailer
Guy Zeigler	County Clerk
Sally Jump	Circuit Court Clerk
Steve Clark	Sheriff
Patsy Conway	Property Valuation Administrator
William C. Harrod	Coroner

Appointed Personnel:

Susan Laurenson	County Treasurer
Debra Anderson	Occupational Tax Collector

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FRANKLIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

FRANKLIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 7,761,398	\$ 190,815	\$ 7,952,213
Note Receivable	6,653		6,653
Total Current Assets	<u>7,768,051</u>	<u>190,815</u>	<u>7,958,866</u>
Noncurrent Assets:			
Bond Issuance Costs	24,500		24,500
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	1,282,085		1,282,085
Land and Land Improvements	3,671,080		3,671,080
Buildings	6,188,434		6,188,434
Furniture and Equipment	2,090,610		2,090,610
Vehicles	1,727,701		1,727,701
Infrastructure	20,284,102		20,284,102
Total Noncurrent Assets	<u>35,268,512</u>		<u>35,268,512</u>
Total Assets	<u>43,036,563</u>	<u>190,815</u>	<u>43,227,378</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	5,122,053		5,122,053
Financing Obligations Payable	136,108		136,108
Total Current Liabilities	<u>5,258,161</u>		<u>5,258,161</u>
Noncurrent Liabilities:			
Bonds Payable	465,033		465,033
Financing Obligations Payable	119,146		119,146
Total Noncurrent Liabilities	<u>584,179</u>		<u>584,179</u>
Total Liabilities	<u>5,842,340</u>		<u>5,842,340</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	31,403,660		31,403,660
Restricted For:			
Debt Service	341		341
Unrestricted	5,790,222	190,815	5,981,037
Total Net Assets	<u>\$ 37,194,223</u>	<u>\$ 190,815</u>	<u>\$ 37,385,038</u>

The accompanying notes are an integral part of the financial statements.

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FRANKLIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

FRANKLIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

		Program Revenues Received			
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 5,537,013	\$ 2,149,594	\$ 606,236	\$ 57,298	
Protection to Persons and Property	6,622,034		697,663		
General Health and Sanitation	1,618,659	248,134		38,845	
Social Services	316,416				
Recreation and Culture	429,074	138,433			
Roads	2,873,202		1,725,316	121,058	
Debt Service	518,387				
Capital Projects	137,334				
Total Governmental Activities	18,052,119	2,536,161	3,029,215	217,201	
Business-type Activities:					
Jail Canteen	539,449	505,849			
Total Business-type Activities	539,449	505,849			
Total Primary Government	\$ 18,591,568	\$ 3,042,010	\$ 3,029,215	\$ 217,201	

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Occupational License Tax
 Insurance Premium Taxes
 Net Profit Taxes
 Other Taxes
Excess Fees
 Unrestricted Investment Earnings
Miscellaneous Revenues

 Total General Revenues and Transfers
 Change in Net Assets
Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

FRANKLIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,723,885)	\$	\$ (2,723,885)
(5,924,371)		(5,924,371)
(1,331,680)		(1,331,680)
(316,416)		(316,416)
(290,641)		(290,641)
(1,026,828)		(1,026,828)
(518,387)		(518,387)
(137,334)		(137,334)
(12,269,542)		(12,269,542)
	(33,600)	(33,600)
	(33,600)	(33,600)
(12,269,542)	(33,600)	(12,303,142)
3,816,226		3,816,226
477,156		477,156
504,469		504,469
2,864,804		2,864,804
1,759,875		1,759,875
399,940		399,940
1,120,556		1,120,556
775,441		775,441
70,872	761	71,633
292,037		292,037
12,081,376	761	12,082,137
(188,166)	(32,839)	(221,005)
37,382,389	223,654	37,606,043
\$ 37,194,223	\$ 190,815	\$ 37,385,038

The accompanying notes are an integral part of the financial statements.

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FRANKLIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

FRANKLIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Community Development Block Grant Fund
ASSETS					
Cash and Cash Equivalents	\$ 5,374,849	\$	\$ 58,698	\$ 295,113	\$ 58,931
Total Assets	<u>5,374,849</u>	<u></u>	<u>58,698</u>	<u>295,113</u>	<u>58,931</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Cash Shortages		4,022			
Total Liabilities		<u>4,022</u>			
FUND BALANCES					
Reserved for:					
Encumbrances	165,664	25,761	18,222		
Unreserved:					
General Fund	5,209,185				
Special Revenue Funds		(29,783)	40,476	295,113	58,931
Capital Projects Fund					
Debt Service Fund					
Total Fund Balances	<u>5,374,849</u>	<u>(4,022)</u>	<u>58,698</u>	<u>295,113</u>	<u>58,931</u>
Total Liabilities and Fund Balances	<u>\$ 5,374,849</u>	<u>\$ 0</u>	<u>\$ 58,698</u>	<u>\$ 295,113</u>	<u>\$ 58,931</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 7,761,398
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Note Receivable Used in Governmental Activities Are Not Financial Resources and Therefore, Are Not Reported in the Funds	6,653
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	80,333,914
Accumulated Depreciation	(45,089,902)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(255,254)
Revenue Bonds	(5,587,086)
Bond Issuance Cost	<u>24,500</u>
Net Assets Of Governmental Activities	<u>\$ 37,194,223</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Debt Service Fund	Public Properties Corporation Fund	Total Governmental Funds
<u>\$ 341</u>	<u>\$ 1,977,488</u>	<u>\$ 7,765,420</u>
<u>341</u>	<u>1,977,488</u>	<u>7,765,420</u>
		<u>4,022</u>
		<u>4,022</u>
		209,647
		5,209,185
		364,737
	1,977,488	1,977,488
<u>341</u>		<u>341</u>
<u>341</u>	<u>1,977,488</u>	<u>7,761,398</u>
<u>\$ 341</u>	<u>\$ 1,977,488</u>	<u>\$ 7,765,420</u>

The accompanying notes are an integral part of the financial statements.

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FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 10,538,159	\$	\$	\$
Excess Fees	775,441			
Licenses and Permits	135,495			
Intergovernmental	1,013,031	1,765,726	2,141,013	181,797
Charges for Services	285,220		99,170	
Miscellaneous	630,366	59,819	128,923	
Interest	70,872			
Total Revenues	<u>13,448,584</u>	<u>1,825,545</u>	<u>2,369,106</u>	<u>181,797</u>
EXPENDITURES				
General Government	1,925,196			
Protection to Persons and Property	3,855,516		2,547,480	
General Health and Sanitation	1,572,049	8,091		
Social Services	316,416			
Recreation and Culture	429,617			
Roads		1,803,410		97,050
Debt Service:	501,520		137,580	
Capital Projects	137,334			
Administration	2,711,819	205,820	699,850	
Total Expenditures	<u>11,449,467</u>	<u>2,017,321</u>	<u>3,384,910</u>	<u>97,050</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,999,117</u>	<u>(191,776)</u>	<u>(1,015,804)</u>	<u>84,747</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		125,000	1,050,000	
Transfers To Other Funds	(1,175,000)			
Total Other Financing Sources (Uses)	<u>(1,175,000)</u>	<u>125,000</u>	<u>1,050,000</u>	
Net Change in Fund Balances	824,117	(66,776)	34,196	84,747
Fund Balances - Beginning	4,550,732	62,754	24,502	210,366
Fund Balances - Ending	<u>\$ 5,374,849</u>	<u>\$ (4,022)</u>	<u>\$ 58,698</u>	<u>\$ 295,113</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Community Development Block Grant Fund	Debt Service Fund	Public Properties Corporation Fund	Total Governmental Funds
\$	\$	\$	\$ 10,538,159
			775,441
			135,495
38,845			5,140,412
			384,390
			819,108
		76	70,948
38,845		76	17,863,953
			1,925,196
			6,402,996
34,343			1,614,483
			316,416
			429,617
			1,900,460
		170,000	809,100
		2,675,657	2,812,991
			3,617,489
34,343		2,845,657	19,828,748
4,502		(2,845,581)	(1,964,795)
			1,175,000
			(1,175,000)
4,502		(2,845,581)	(1,964,795)
54,429	341	4,823,069	9,726,193
\$ 58,931	\$ 341	\$ 1,977,488	\$ 7,761,398

The accompanying notes are an integral part of the financial statements.

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**FRANKLIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

FRANKLIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (1,964,795)

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	3,707,593
Depreciation Expense	(2,165,998)
Assets disposed of, net book value	(25,000)
Bond Issuance cost	(24,500)

Payment on Receivable Provides for Current Financial Resources to Governmental Funds, while at the Government-wide Level, a Reduction of Receivable Occurs. These Transactions Have No Effect on Net Assets. (6,179)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Bond Payments	193,438
Financing Obligations Payments	<u>97,275</u>

Change in Net Assets of Governmental Activities \$ (188,166)

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FRANKLIN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

FRANKLIN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 190,815
Total Current Assets	<u>190,815</u>
Net Assets	
Unrestricted	190,815
Total Net Assets	<u><u>\$ 190,815</u></u>

The accompanying notes are an integral part of the financial statements.

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FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

FRANKLIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 225,487
Total Operating Revenues	<u>225,487</u>
Operating Expenses	
Cost of Sales	115,222
Educational and Recreational	22,409
Sales Tax	5,848
Miscellaneous	<u>125,994</u>
Total Operating Expenses	<u>269,473</u>
Operating Income (Loss)	<u>(43,986)</u>
Nonoperating Revenues (Expenses)	
Inmate Deposits	176,136
Interest Income	761
Inmate State Pay	9,440
State Pay to Inmates	(9,440)
Inmate Refunds	(165,750)
Medical Co-payment from Inmates	10,265
Medical Co-payments Paid	(10,265)
Property Damage by Inmates	463
Property Damage Repairs	(463)
Administrative Booking Fee from Inmates	84,058
Administrative Booking Fee Paid to Fiscal Court	<u>(84,058)</u>
Total Nonoperating Revenues (Expenses)	<u>11,147</u>
Change In Net Assets	(32,839)
Total Net Assets - Beginning	<u>223,654</u>
Total Net Assets - Ending	<u><u>\$ 190,815</u></u>

The accompanying notes are an integral part of the financial statements.

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FRANKLIN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

FRANKLIN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers for Sales	\$ 225,487
Cash Payments To Vendors for Supplies	(115,222)
Cash Payments for Educational & Recreational	(22,409)
Cash Payments for Sales Tax	(5,848)
Cash Payments for Miscellaneous	(125,994)
Net Cash Used By	
Operating Activities	(43,986)
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	(165,750)
Inmate Deposits	176,136
Net Cash Provided By Noncapital Financing Activities	10,386
Cash Flows From Investing Activities	
Interest Earned	761
Net Cash Provided By Investing Activities	761
Net Increase (Decrease) in Cash and Cash Equivalents	(32,839)
Cash and Cash Equivalents - July 1	223,654
Cash and Cash Equivalents - June 30	\$ 190,815
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (43,986)
Net Cash Provided By Operating Activities	\$ (43,986)

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Franklin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. Franklin County does not have any discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Franklin County Public Properties Corporation

The Franklin County Public Properties Corporation created for public, civic and governmental purposes including the development, acquisition, financing and operation of a Justice Center in Franklin County, Kentucky. The Franklin County Fiscal Court is essentially the same board as the Franklin County Public Properties Corporation and therefore has the ability to impose its will on the governing board. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within Franklin County's financial statements as the Public Properties Corporation Fund.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Franklin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Franklin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Franklin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The primary purpose of this fund is to account for grants and related expenditures. The primary sources of revenues for this fund are grants from the state and federal governments.

Community Development Block Grant (CDBG) Fund - The primary purpose of this fund is to account for grants and related expenditures. The primary sources of revenues for this fund are grants from the state and federal governments.

Debt Service Fund - This fund is reserve funds for debt service.

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, and Community Development Block Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Public Properties Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Debt Service Fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	20
Land	\$ 1	
Buildings and Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	3-10
Vehicles	\$ 5,000	5
Infrastructure	\$ 100,000	25-50
Intangibles	\$ 5,000	3-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

Note 2. Deposits

The primary government and blended component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D).. According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,221,080	\$ 1,450,000	\$	\$ 3,671,080
Construction In Progress	56,428	1,225,657		1,282,085
Total Capital Assets Not Being Depreciated	2,277,508	2,675,657		4,953,165
Capital Assets, Being Depreciated:				
Buildings	17,108,738			17,108,738
Furniture and Equipment	4,325,955	59,124		4,385,079
Vehicles	3,491,558	654,760	(95,471)	4,050,847
Infrastructure	49,518,033	318,052		49,836,085
Total Capital Assets Being Depreciated	74,444,284	1,031,936	(95,471)	75,380,749
Less Accumulated Depreciation For:				
Buildings	(10,624,255)	(296,049)		(10,920,304)
Furniture and Equipment	(1,949,827)	(344,642)		(2,294,469)
Vehicles	(2,040,209)	(353,408)	70,471	(2,323,146)
Infrastructure	(28,380,084)	(1,171,899)		(29,551,983)
Total Accumulated Depreciation	(42,994,375)	(2,165,998)	70,471	(45,089,902)
Total Capital Assets, Being Depreciated, Net	31,449,909	(1,134,062)	(25,000)	30,290,847
Governmental Activities Capital Assets, Net	<u>\$ 33,727,417</u>	<u>\$ 1,541,595</u>	<u>\$ (25,000)</u>	<u>\$ 35,244,012</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 7,118	\$	\$	\$ 7,118
Less Accumulated Depreciation For:				
Vehicles and Equipment	(7,118)			(7,118)
Business-Type Activities Capital Assets, Net	\$ 0	\$ 0	\$ 0	\$ 0

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 69,209
Protection to Persons and Property	768,362
General Health and Sanitation	4,176
Recreation and Culture	33,457
Roads, Including Depreciation of General Infrastructure Assets	<u>1,290,794</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,165,998</u>

Depreciation expense was charged to functions of the Business-Type Activities as follows:

Business-Type Activities

Jail Canteen	<u>\$</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 0</u>

Note 4. Receivable

On January 2004, the Franklin County Fiscal Court entered into a lease agreement to borrow \$69,000 for the purchase of a 5-ton overhead crane for RJ Industries, who delivered an irrevocable letter of credit for the entire loan amount. The County makes the payments, but they are reimbursed by RJ Industries. The \$69,000 loan proceeds of the loan were received by the County but were then paid to RJ Industries. The loan was paid off during the prior year ahead of schedule. RJ Industries has defaulted on the associated receivable; however, the balance remains on the government-wide statement of financial position.

Note 5. Long-term Debt

A. Financing Obligation - State Journal Building

The Franklin County Fiscal Court entered into a lease agreement with KACoLT to establish a family court in the former State Journal Building. The amount of the lease was \$1,110,000 at 5.0%. The closing date was October 7, 1999. The maturity date is November 20, 2009. Final payment was made during fiscal year 2010.

B. Financing Obligation - Fire Truck

The Franklin County Fiscal Court entered into a Lease/Purchase Agreement with Emergency One, Inc. for a fire truck and equipment. The amount of the lease was \$520,993 at 4.95% for ten years with payments to be made annually. The maturity date is July 3, 2012. The balance due at June 30, 2010 was \$125,241. Future debt service requirements follow:

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

B. Financing Obligation - Fire Truck (Continued)

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 61,108	\$ 6,199
2012	64,133	3,174
Totals	<u>\$ 125,241</u>	<u>\$ 9,373</u>

C. Financing Obligation - Pumper Fire Truck

On January 25, 2007, the Franklin County Fiscal Court entered into a lease agreement with KACO Leasing Trust to borrow \$361,014 to purchase a pumper fire truck. The interest rate is 4.84% with a maturity date of February 20, 2012. The balance due at June 30, 2010 is \$130,013. Future debt service requirements follow:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 75,000	\$ 4,552
2012	55,013	1,097
Totals	<u>\$ 130,013</u>	<u>\$ 5,649</u>

D. Financing Obligation - John Deer Mower

On October 1, 2006 the Franklin County Fiscal Court purchased a mower financed through John Deere Credit. The interest rate is 6.75% with a maturity date of October 1, 2009. Final payment was made during fiscal year 2010.

E. Revenue Bonds - Jail Facilities

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$6,681,057 of revenue bonds at various interest rates of which the county has agreed to pay \$2,032,019 principal and a proportional share of interest on the issue. In October 2004 the KLCFCA refunded these bonds. As a result, the County entered into a Second Agreement on October 1, 2004 with the Authority in order to provide for the reduction of the County's rental payments due under the lease with respect to the project consequent to the issuance of the refunding bonds. Revenue bonds outstanding at June 30, 2010 are \$587,086. Future debt service requirements follow:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 103,442	\$ 33,942
2012	110,001	27,176
2013	116,975	19,981
2014	124,391	12,330
2015	132,277	4,193
Totals	<u>\$ 587,086</u>	<u>\$ 97,622</u>

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

F. Revenue Bonds - Public Properties Corporation

On December 16, 2008 the Franklin County Public Properties Corporation issued \$5,000,000 in Bond Anticipation Notes for the sole purpose of the renovation and construction of the Franklin County Courthouse. These notes are due in December of 2010. The proceeds of which are to be used for the planning, architectural drawings and purchase of land for the Courthouse. Bond issuance costs of \$49,000 were expended and will be amortized over the life of the notes. Revenue bonds outstanding at June 30, 2010 are \$5,000,000 and are due in December of 2010.

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 5,684,360	\$	\$ 97,275	\$ 5,587,086	\$ 5,122,053
Financing Obligations	448,692		193,438	255,254	136,108
Governmental Activities					
Long-term Liabilities	<u>\$ 6,133,052</u>	<u>\$ 0</u>	<u>\$ 290,713</u>	<u>\$ 5,842,340</u>	<u>\$ 5,258,161</u>

Note 6. Commitments

A. On August 27, 2003, the Franklin County Fiscal Court entered into a lease agreement with KACO Leasing Trust through Capital Community Economic/Industrial Development Authority (CCEIDA) for the development of an industrial park. CCEIDA received the proceeds. CCEIDA makes the payments to KACO Leasing Trust. Because of the cooperative interlocal agreement between CCEIDA, the City of Frankfort, and Franklin County, the City and the County are each required to reimburse CCEIDA for 50% of the payments. The project is under the authority of CCEIDA, therefore, no asset or liability was shown on the County's financial statements.

B. On August 27, 2003, the Franklin County Fiscal Court entered into a lease agreement with KACO Leasing Trust through Capital Community Economic/Industrial Development Authority (CCEIDA) for the purchase of land to construct a building for Bluegrass Community Action Agency (BGCAA). CCEIDA received the proceeds. BGCAA makes all payments on the lease. Therefore, no asset or liability was shown on the County's financial statements.

C. On August 4, 2006, the Franklin County Fiscal Court authorized and provided for the issuance of \$2,060,000 County of Franklin, Kentucky Variable Rate Demand Economic Development Revenue Bonds (Frankfort YMCA Project), Series 2006. The YMCA received the proceeds. The YMCA will make all payments. An irrevocable letter of credit was delivered for the entire amount. Therefore, no asset or liability was shown on the County's financial statements.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Commitment (Continued)

D. On November 30, 2007, the Franklin County Fiscal Court issued \$3,400,000 Franklin County, Kentucky, Adjustable Rate Dedicated Tax Revenue Bonds, Series 2007. (Save the Grand Theatre, Inc. Project). A room tax of 2% was imposed pursuant to KRS 91A.391 (1) to be applied toward the retirement of the debt. The bonds are a limited obligation of the county and are secured by the pledge of the proceeds of that special tax, and the performance of various obligations by the Save the Grand Theatre, Inc. (borrower) under a loan agreement between the County and the borrower which obligations and payments will be assigned to the bond trustee under a trust indenture for the benefit of the bondholders. Payment of debt service on the bonds which will bear a variable rate of interest and be subject to a weekly tender option, will be further secured by a direct-pay letter of credit issued by Fifth Third Bank pursuant to a reimbursement agreement and related security documents between the borrower and the bank. No asset or liability has been reported in the County's financial statements.

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$17,743 in interest on financing obligations and \$188,611 in interest on bonds and notes.

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 8. Employee Retirement System (Continued)

The county's contribution for FY 2008 was \$1,742,818, FY 2009 was \$1,583,939, and FY 2010 was \$1,860,160.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

The Franklin County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2010, Franklin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustments

Capital asset beginning balance has been adjusted by \$1,098,917 to correct errors, omissions, and misstatements discovered in the prior year capital assets schedule.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 12. Related Party Transactions

The Fiscal Court utilized services from CC Moore Company, Inc. that is partially owned by Lambert Moore, Magistrate. They paid \$ 2,265 to CC Moore Company, Inc.

The Fiscal Court paid \$2,265 for services to CC Moore Company, Inc. that is partially owned by Lambert Moore, County Magistrate. CC Moore Company, Inc. was also subcontracted by Gateway to provide services for the construction of the new Judicial Center in the amount of \$985.

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FRANKLIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

FRANKLIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 10,466,500	\$ 10,466,500	\$ 10,538,159	\$ 71,659
Excess Fees	376,379	529,369	775,441	246,072
Licenses and Permits	141,000	141,000	135,495	(5,505)
Intergovernmental Revenue	1,191,400	1,316,718	1,013,031	(303,687)
Charges for Services	310,000	310,000	285,220	(24,780)
Miscellaneous	1,633,151	2,081,037	630,366	(1,450,671)
Interest	60,000	60,000	70,872	10,872
Total Revenues	14,178,430	14,904,624	13,448,584	(1,456,040)
EXPENDITURES				
General Government	3,786,597	3,915,922	1,925,196	1,990,726
Protection to Persons and Property	3,757,229	4,173,238	3,855,516	317,722
General Health and Sanitation	1,525,505	1,588,905	1,572,049	16,856
Social Services	326,968	332,768	316,416	16,352
Recreation and Culture	450,206	455,956	429,617	26,339
Debt Service	465,000	509,000	501,520	7,480
Capital Projects	266,000	306,462	137,334	169,128
Administration	2,852,610	2,874,058	2,711,819	162,239
Total Expenditures	13,430,115	14,156,309	11,449,467	2,706,842
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	748,315	748,315	1,999,117	1,250,802
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(2,449,086)	(2,449,086)	(1,175,000)	1,274,086
Total Other Financing Sources (Uses)	(2,449,086)	(2,449,086)	(1,175,000)	1,274,086
Net Changes in Fund Balance	(1,700,771)	(1,700,771)	824,117	2,524,888
Fund Balance - Beginning	1,700,771	1,700,771	4,550,732	2,849,961
Fund Balance - Ending	\$ 0	\$ 0	\$ 5,374,849	\$ 5,374,849

FRANKLIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,888,575	\$ 1,888,575	\$ 1,765,726	\$ (122,849)
Miscellaneous	45,000	45,000	59,819	14,819
Total Revenues	1,933,575	1,933,575	1,825,545	(108,030)
EXPENDITURES				
General Health and Sanitation	15,000	15,000	8,091	6,909
Roads	2,055,332	2,055,332	1,803,410	251,922
Administration	208,200	208,200	205,820	2,380
Total Expenditures	2,278,532	2,278,532	2,017,321	261,211
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(344,957)	(344,957)	(191,776)	153,181
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	344,957	344,957	125,000	(219,957)
Total Other Financing Sources (Uses)	344,957	344,957	125,000	(219,957)
Net Changes in Fund Balance			(66,776)	(66,776)
Fund Balance - Beginning			62,754	62,754
Fund Balance - Ending	\$ 0	\$ 0	\$ (4,022)	\$ (4,022)

FRANKLIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,889,862	\$ 1,889,862	\$ 2,141,013	\$ 251,151
Charges for Services	89,900	89,900	99,170	9,270
Miscellaneous	117,000	117,000	128,923	11,923
Total Revenues	2,096,762	2,096,762	2,369,106	272,344
EXPENDITURES				
Protection to Persons and Property	2,807,991	2,807,991	2,547,480	260,511
Debt Service	138,000	138,000	137,580	420
Administration	754,900	754,900	699,850	55,050
Total Expenditures	3,700,891	3,700,891	3,384,910	315,981
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(1,604,129)	(1,604,129)	(1,015,804)	588,325
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,604,129	1,604,129	1,050,000	(554,129)
Total Other Financing Sources (Uses)	1,604,129	1,604,129	1,050,000	(554,129)
Net Changes in Fund Balance				
Fund Balance - Beginning			34,196	34,196
			24,502	24,502
Fund Balance - Ending	\$ 0	\$ 0	\$ 58,698	\$ 58,698

FRANKLIN COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Required Supplementary Information - Modified Cash Basis
 For The Year Ended June 30, 2010
 (Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 140,000	\$ 140,000	\$ 181,797	\$ 41,797
Total Revenues	140,000	140,000	181,797	41,797
EXPENDITURES				
Roads	140,000	140,000	97,050	42,950
Total Expenditures	140,000	140,000	97,050	42,950
Net Changes in Fund Balances			84,747	84,747
Fund Balances - Beginning			210,366	210,366
Fund Balances - Ending	\$ 0	\$ 0	\$ 295,113	\$ 295,113

FRANKLIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

COMMUNITY DEVELOPMENT BLOCK GRANT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 1,595,000	\$ 1,595,000	\$ 38,845	\$ (1,556,155)
Total Revenues	1,595,000	1,595,000	38,845	(1,556,155)
EXPENDITURES				
General Health and Sanitation	2,095,000	2,095,000	34,343	2,060,657
Total Expenditures	2,095,000	2,095,000	34,343	2,060,657
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(500,000)	(500,000)	4,502	504,502
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	500,000	500,000		500,000
Total Other Financing Sources (Uses)	500,000	500,000		500,000
Net Changes in Fund Balances			4,502	4,502
Fund Balances - Beginning			54,429	54,429
Fund Balances - Ending	\$ 0	\$ 0	\$ 58,931	\$ 58,931

FRANKLIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ted Collins, Franklin County Judge/Executive
Members of the Franklin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Franklin County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 6, 2011. Franklin County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Franklin County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Franklin County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-01 and 2010-02 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-03, 2010-04, and 2010-05 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Franklin County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2010-06 and 2010-07.

The Franklin County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 6, 2011

**FRANKLIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2010

**FRANKLIN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2010

INTERNAL CONTROL - MATERIAL WEAKNESSES

2010-01 The County Judge/Executive Should Ensure Appropriate Oversight And Adequate Controls Are In Place Over Occupational Tax Receipts

The Franklin County Fiscal Court had one employee responsible for the collection and recording of receipts for occupational taxes with little, if any, oversight. The Occupational Tax Administrator (OTA) was responsible for receiving unopened mail and occupational tax payments, preparing the transmittal sheet that was sent to the treasurer for deposit, and posting tax forms into the computer system.

The auditor noted that occupational tax processing was significantly behind and multiple checks were located throughout that office that had not been deposited. Upon further investigation, the auditor also noted that between October 2009 and December 2010 many tax forms that were not processed in the tax system. The auditor also noted that a separate spreadsheet was being maintained by the OTA that was given to the treasurer for reconciling to the general ledger. This spreadsheet did not reconcile to the actual occupational tax system but reconciled to collections deposited. As a result of such weaknesses, the auditor noted the following errors/issues:

- An account named “Test” was utilized for two payments that the OTA was unable to determine what account to post them to, per a note on this account. This created a erroneous credit account.
- Payments presented from one insurance company were posted incorrectly to another insurance company’s account.
- Amounts deposited were greater than amounts reported in system.
- Refunds for overpayments had not been paid out in two years. However, there was a large amount of credit balances per a system report. This report listed all businesses that were due refunds but auditors could not determine if these amounts were correct.
- Auditor was unable to agree third party confirmations to the tax system reports due to back log of reports that had not been posted.
- Length of time between payment deposited and processing of tax report was as many as 16 months apart for businesses that were tested.
- 24 out of 25 businesses selected for testing had at least one payment that was received several months prior to the date the tax report was actually posted. They were in the backlog.
- Checks submitted by tax payers were found to be uncashed in the OTA’s office; these checks were dated months prior to date found.
- No evidence that end of year reviews were performed on accounts to ensure that tax payers had paid the appropriate amount or to determine if a tax payer was due a refund.
- Auditor noted that multiple updates had not been performed on the OTA’s software and allowed for manipulation of dates and amounts within the computer system.

Good internal controls dictate that management maintain proper oversight and ensure adequate controls are in place to prevent or detect and correct material misstatement.

FRANKLIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2010-01 The County Judge/Executive Should Ensure Appropriate Oversight And Adequate Controls Are In Place Over Occupational Tax Receipts (Continued)

We recommend the Franklin County Fiscal Court strengthen controls over the occupational tax office. There should be adequate segregation of duties and proper oversight to ensure daily responsibilities are segregated and performed accurately and timely. Someone independent from posting to the occupational tax system should be responsible for opening mail and preparing the daily transmittal sheet. Also, once forms have been posted, a system generated report should be reconciled to the transmittal sheet. We also recommend proper reconciliations be performed for occupational tax collections. This reconciliation should be between the deposited amount recorded by the Treasurer and the amount as processed in the occupational tax computer system. There should be a tracking system in place to ensure that any changes made to the system would result in a report generated by the system that is provided to someone in upper management for review. Any changes made to an account in the system should be approved by authorized personnel to ensure proper oversight.

County Judge/Executive Ted Collins' Response: We have taken the appropriate steps to implement new procedures for segregation of duties and reconciliation of daily tax entries. We have taken corrective measures on the errors and omissions from the previous Occupational Tax Administrator.

2010-02 The Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure

During the review of capital assets, the auditor noted that the county did not have an accurate capital asset schedule for fiscal year ended June 30, 2010. A list of capital asset additions was not properly maintained. Prior year capital asset lists did not include one building owned by the county and several vehicles purchased during that year and were calculating depreciation for infrastructure past its useful life. This resulted in a material misstatement to the prior year's beginning balance for net assets of \$1,098,917. The Department of Local Government (DLG) requires counties to maintain capital asset records (see DLG County Budget Preparation and State Local Finance Officer Policy Manual pages 55-60), that requires among other things a description of the asset, historical cost, date of acquisition, and useful life of asset. Not maintaining an accurate list of capital assets could cause capital assets to not be insured or paying for insurance for an asset the county no longer owns. The auditor noted that annual inventories were being performed; however, no one was reviewing/reconciling these reports to ensure accuracy.

In order to strengthen the county's internal controls over capital assets and infrastructure, and to comply with the requirements of GASB 34 and the Department of Local Government's policy manual, we recommend a schedule of additions be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Furthermore, the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is retired or disposed of it should be removed from the listing. The assets added/deleted should also include capital assets purchased or disposed of by the County Sheriff and Clerk.

FRANKLIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2010-02 The Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure (Continued)

The Fiscal Court should reconcile all annual inventory reports to the additions, retired assets, and surplus to ensure accurate accounting of capital assets. We also recommend that the County implement policies that will identify and track additions, retirements and disposed assets for the purpose of the capital asset schedule. These procedures will ensure that fixed assets are properly stated and that depreciation is being calculated accurately.

County Judge/Executive Ted Collins' Response: We have implemented new tracking procedures for inventory as recommended by the State Auditor's Office.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES

2010-03 The Franklin County Judge/Executive's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations

Based on our review of internal controls, we noted that the Franklin County Fiscal Court lacks adequate segregation of duties over receipts and bank reconciliations. We noted that the county treasurer receives the monies, prepares the deposit, takes deposit to bank, posts receipts to ledger, and reconciles the bank statement to the ledgers. The treasurer also prepares reports from the ledgers for submission to the Department of Local Government. Good internal controls dictate that no one employee have complete control over a transaction from the time it is received until it is deposited.

Lack of segregation of duties could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to irregularities that go undetected.

In order to protect employees in the normal course of their assigned functions, and the fiscal court against inaccurate financial reporting, we recommend the fiscal court implement procedures that adequately segregate duties assigned to the treasurer. If duties cannot be adequately segregated due to limited number of staff, strong oversight should be provided over the employees responsible. This oversight should be documented by the person performing it.

We recommend that the County divide the responsibilities for receipts and bank reconciliations among the treasurer and other employees of the county in order to achieve an appropriate level of segregation of duties.

County Judge/Executive Ted Collins' Response: We have implemented new procedures that segregate duties and/or have oversight on the deposits made. Compensating controls will be documented in writing.

2010-04 The County Should Improve Controls Over Payroll And Comply With Applicable Laws And Regulations

During testing of payroll, the auditor noted various weaknesses and areas of noncompliance. The auditor selected employees from all departments to review their timesheets/reports and recalculate withholdings/earnings. The auditor reviewed the administrative code to ensure compliance with the approved code. The issues are as follows:

FRANKLIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2010-04 The County Should Improve Controls Over Payroll And Comply With Applicable Laws And Regulations (Continued)

- We noted that timesheets/logs were not signed by the employees within one department. The employees were required to sign a daily time log that would be utilized by the administrative assistant to prepare their timesheet that would be submitted to the payroll clerk. They were not required to sign timesheets. The auditors were informed that daily log sheets were not always signed. Upon further discussion it was noted that not all time worked was included in the time log. If an employee provided training or performed administrative duties outside the course of their normal work schedule, it was not properly documented.
- We noted that timesheets were not always signed by the supervisor in one office. Timesheets provide documentation of hours worked to ensure compliance with wage and hour laws as well as to determine eligibility for the County Employee Retirement System; therefore, they should contain both the employee and supervisory signatures to properly account for all time worked for each employee. Also, timesheets showed some employees were being paid for their lunch breaks, sometimes at a rate of time and one half, without any explanation provided. Kentucky Wage and Hour Laws require employers to grant employees a reasonable period for lunch. This requirement may be waived by agreement between the employer and employees that is maintained on file.
- Retirement was not being withheld from two employees whose work hours exceed 100 hours average monthly. Employees who work an average of 100 hours per month should be contributing to the retirement system.
- Accumulated leave balances were not depleted timely. We noted several terminated or retired county employees showing accumulated leave balances even though they were compensated for accumulated time at their leaving. All leave balances should be updated immediately upon depletion in order to ensure accurate balances.
- There is a lack of adequate segregation of duties over the payroll process. The payroll clerk is responsible for inputting new employees into the system, updating their deductions, recording their pay rate, inputting their time into the payroll, and approving the final pay report prior to payment. The report is reviewed by the payroll clerk; there is no other review performed to ensure accuracy.

Good internal controls dictate that the office provide guidance on consistent and proper completion of time records. It also dictates that proper approval and review of timesheets should be documented. Segregation of duties over the payroll process ensures accuracy in reporting.

We recommend the fiscal court review the current Administrative Code and ensure that it properly reflects the policy that is followed by the office. The fiscal court should also ensure all timesheets are signed by employees and supervisors, that timesheets reflect actual hours worked each day, and that overtime is paid to eligible employees. We also recommend the fiscal court review all exempt/nonexempt classifications to ensure compliance with overtime requirements. Furthermore, we recommend that the fiscal court implement adequate segregation of duties over the payroll process.

County Judge/Executive Ted Collins' Response: We are working with department heads to come up with an efficient, more acceptable time sheet procedure. We have taken corrective action to ensure part-time employees do not exceed 100 hours per month. We are in the process of hiring a new Human Resource Director for these issues and for additional oversight.

FRANKLIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2010-05 The County Judge/Executive's Office Should Maintain Records As Outlined By Department For Local Government

During the course of the audit it was noted that a purchase requisition system was in place; however, a purchase requisition was only required for purchases greater than \$20,000. The auditor also noted that an appropriation ledger was not being maintained by the finance officer/administrative assistant.

The Department for Local Government (DLG) has established minimum accounting requirements for Counties. DLG requires a purchase request system be in place. A daily, chronological listing of all purchase orders issued should be maintained. The listing is for all county purchases and should indicate the P.O. number, issue approved by appropriation account code to where the payment will be posted, vendor name, date invoice received, amount of invoice, date claim reviewed by fiscal court, date paid, and amount paid. The finance officer/administrative assistant should issue purchase orders and maintain a purchase order log for all purchases outside the standing orders. Purchases shall not be made without approval by the Judge/Executive or designee, and/or Department Head. The purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made. Also, the Finance Officer/Administrative Assistant should maintain an appropriation ledger that is reconciled to the treasurer's appropriation ledger at least once a month. Each Department Head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the Judge/Executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the County.

Without tracking all purchases through the purchase requisition system, encumbrances were not being accurately reported. The auditor noted that encumbrances were reported based upon the expenditure listing provided to the fiscal court for approval instead of the actual purchase orders that were outstanding at that date. We recommend the fiscal court require a purchase requisition for all purchases made outside of the standing orders. We also recommend that an appropriations ledger be maintained by the finance officer/administrative assistant to ensure purchases do not exceed budgeted line items. There should also be a master listing of all purchase orders providing the detail information outlined in the DLG manual. This listing should be utilized by the treasurer in accounting for encumbrances at fiscal year end.

County Judge/Executive Ted Collins' Response: The appropriation ledger was maintained on a cash basis. The County will review the purchasing procedures and made appropriate corrective action. Communication between the departments and the judge's designee will be based on a line item analysis of anticipated needs including encumbrances to provide more detailed information for timely budget transfers.

FRANKLIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2010-06 The County Should Ensure All Fleet Transactions Are Properly Supported And Approved

The auditor tested 5 Fleet payments totaling \$6,633 and noted that 3 payments totaling \$5,132 were not properly supported. The auditor noted that not all tickets for gas purchases were maintained and that the bills contained numerous odometer errors. Fleet One has implemented preventive procedures to alert the County if the odometer reading entered by the cardholder is not logical by denoting these odometer errors on the bill.

We also noted that Fleet payments were not approved by fiscal court prior to payment, because they were considered to be included in the standing order. Pursuant to KRS 68.275(3), “[t]he fiscal court may adopt an order, called a standing order, to preapprove the payment of recurrent monthly payroll and utility expenses. No other expenses shall be preapproved pursuant to this subsection without the written consent of the state local finance officer.” However, the Department for Local Government does not consider this to be a utility expense that would qualify for pre-approval. We recommend the county ensure that all Fleet purchases are properly approved by Fiscal Court and adequately supported with the appropriate receipts. We also recommend that all errors noted on Fleet One bills are investigated to prevent misuse of fuel.

County Judge/Executive Ted Collins’ Response: We have implemented new procedures for the Fleet One purchases. Billing has been changed from monthly to weekly in order to process timely approved vendor payments.

2010-07 The County Should Follow Proper Bidding Procedures

The county purchased a 2010 F550 on October 23, 2009 for \$58,600 from the vendor that had the state price contract for 2009 Ford Vehicles during Fiscal Year 2009. However, this vehicle was not included on the state price contract. Since this vehicle was not on the state price contract for 2010, the county should have followed bidding procedures as required.

KRS 424.260 states when the county purchases, makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, it must advertise for bids.

We recommend the county ensure that purchases made under state price contracts are valid for the fiscal year of the purchase and if items are not on a price contract, it advertise for bids for all expenditures more than \$20,000.

County Judge/Executive Ted Collins’ Response: The County relied on the vendor that had the current state price contract and was advised that this vehicle was covered under the contract. In the future, we will document the purchase order with the state price contract to ensure the item is covered.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

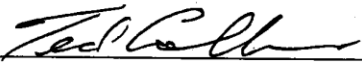
FRANKLIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

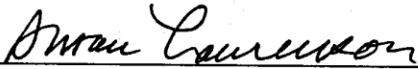
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
FRANKLIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Franklin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

